



A Presentation of CB Insurance

BONDING 101

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Presents:

BONDS

A CONTRACTOR'S LIFEBLOOD

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SURETY - DEFINED

- A person who has made himself legally responsible for another – Debt, Default, Delinquency
- A guarantee that an obligation will be met (with a Bond)
- Guaranteeing the contract between the owner and contractor
- Analogy: like co-signing on a loan



SURETY IS NOT INSURANCE

INSURANCE

- Risk transfer mechanism
- Regulated by Dept. of Insurance
- Property & Casualty License
- Expect losses, price accordingly
- 2 party contract
- Insured doesn't share in loss

SURETY CREDIT = BONDING

- Risk transfer mechanism
- Regulated by Dept. of Insurance
- Property & Casualty License
- Expect no losses
- 3 party contract
- Contractor pays back surety for any losses – makes surety whole



CONSTRUCTION A RISKY BUSINESS

Gus Grissom: Mercury astronaut / 2nd American into space

What do you think about when you're waiting for the launch up there in the capsule on top of the rocket?

"The fact that everything underneath me was built by the lowest bidder"



BOND PROCESS – THE RIGHT WAY

- Understand the contractor (gather information)
- Analyze the risk (analyze the information)
- Advisory role (trusted advisor not a vendor)
- Select a surety
- Advocate for the contractor
- Protect the interest of the surety

RELATIONSHIPS / REPUTATION



ADVISORY ROLE

- Contract Review
- Financial Statement Review
- Review of Internal Accounting Systems
- Review of Management Reports
- Bank Line Adequacy / Cash Flow Analysis
- Credit Profile
- Business Plan Review

BETTER RISK FOR THE SURETY = EXTEND CREDIT



WHY ARE BONDS SO IMPORTANT?

- HEARD ACT OF 1894 / MILLER ACT OF 1935
 - Required surety bonds on all federally funded projects over \$100,000
 - States, cities and other municipalities – Little Miller Acts
 - Federal: Military bases, Federal agencies (FAA, GSA, NASA, Post office)
 - State: CDOT
 - Municipalities: City of Colorado Springs, El Paso County
- Privately funded projects
 - Owner required and bankers have been known to require bonding
- General Contractors requiring more bonds of subcontractors (trade)



BONDING IN ECONOMIC DOWNTURN

- Surety credit is tightening (harder to get)
- Sureties are underwriting more closely / asking more questions
 - Sales volume, covering overhead, servicing debt
- Receivables: source and collectability
- Bank support will be critical to contractor's success
- Reinsurance renewals will see more restrictions / expensive

QUALITY ADVICE TO CONTRACTORS IS MORE IMPORTANT THAN EVER TO SECURE BONDING



WHO NEEDS BONDS

CONTRACT

- General Contractors
- Sub/Trade Contractors
- Utility/Excavation
- Developer / Home Builder
- Heavy Highway

COMMERCIAL

- Janitorial services
- Guard and security
- Food suppliers
- Fuel oil suppliers
- Healthcare services
- Moving services
- Photography services
- Temporary personnel
- Towing services
- Uniform supply



WHY SHOULD CONTRACTORS WORK WITH CHRIS RAMIREZ?

- Helping contractors get bond > 18 years
- Been in u/w meetings – Approve/Decline bonds
- I know what the surety is looking for in a contractor
- Small / Emerging contractors with their first bond
- Established contractors get jumbo jobs / backlog approved
- CPA background
- RELATIONSHIPS – Know all the bond managers / bosses
- REPUTATION – Involved in surety industry

